



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-197710

JULY 8, 1983

Mr. William H. Draper III
Chairman, Export-Import Bank of
the United States



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Subject: Export-Import Bank's Exporter Insurance
Program (GAO/ID-83-49)

Dear Mr. Draper:

Concurrent with our review of Eximbank's financial statements for fiscal year 1982, we reviewed operations at the Foreign Credit Insurance Association (FCIA), which works in partnership with Eximbank in providing export credit insurance to exporters and banks. We noted certain weaknesses in control features of FCIA's automated accounting system and a need for increased Eximbank verification of FCIA monthly report data. We bring these matters to your attention so that you can consider any corrective action which may be necessary. Our report on the review of Eximbank's financial statements will be issued separately to the Bank's Board of Directors.

FCIA is scheduled to implement a revised automated accounting system to correct the control weaknesses in the present system. We believe that Eximbank should monitor the implementation of this revised system to assure that the weaknesses noted are corrected. If the new system is not implemented promptly, Eximbank should encourage FCIA to adopt interim procedures to correct existing weaknesses.

We also believe that Eximbank's staff should plan periodic visits to FCIA to test supporting records of premium income and claims payment data shown on FCIA monthly activity reports. This would provide added assurance of the reliability of these reports; also, discrepancies that may exist could be resolved. Details on these points are discussed in the following sections.

WEAKNESSES IN FCIA'S ACCOUNTING CONTROLS

Under the Eximbank/FCIA agreement, FCIA verifies billings, collects premiums, and keeps accounting records of premiums paid, expenses incurred, and claims paid under the Eximbank

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insurance program. FCIA also computes the split of premium income and expenses shared with Eximbank in accordance with the agreement and prepares monthly activity reports showing Eximbank's share of premium income, expenses incurred, claims paid, and net income (loss). These reports are accompanied by a check for Eximbank's share of the net income or a bill for its share of the losses.

During our review we visited FCIA and surveyed its accounting system which generates the monthly activity reports. We noted the system did not have sufficient edit features to assure that

- correct premium rates are used in the computations of billings for premiums due; and
- the system will reject the input of data for insuring shipments to countries on Eximbank restricted countries listings.

Premium rates fed into FCIA's automated system to compute the billings of premiums due are taken from shipment reports completed by the insured. Although FCIA personnel check to determine if all needed information is provided on the shipment reports before this data goes into the computer, the propriety of the premium rates shown is not verified. Therefore, it is possible that the computation of premium due could be based on an incorrect premium rate.

FCIA's independent auditors performed a small sample of premiums-due computations as part of their 1982 audit. Their sample disclosed a 10-percent error rate. This was acceptable for their purposes of certifying the financial statements.

As part of our review of FCIA's records, we examined source documents for 9 insurance policies and found 2 cases in which the incorrect premium rate was used. We originally selected a sample of 82 policies but tested only 9 because of the difficulty in reconciling premiums due as shown in Eximbank computer reports with source documents (shipment reports) in FCIA files.

We also noted that Eximbank records showed that between 1978 and 1982 FCIA insured and collected premiums for about 700 shipments of goods to countries on Eximbank's restricted country list. Eximbank receives monthly computer tapes of shipments insured by FCIA and feeds this information into its automated system, which has an edit feature that rejects shipments to restricted countries. Eximbank submitted listings of the 700 shipments to FCIA for corrective action. As of September 30,

1982, FCIA had taken corrective action and reversed the transactions for about 300 and at the time of our visit in December 1982, was taking corrective action for the remaining 400 shipments.

The FCIA Controller stated that FCIA's automated system has an edit feature to notify the keypunch operator if the shipment entered into the system is to a restricted country. However, by the time FCIA receives an updated listing of ineligible countries from Eximbank, transactions for some of the new countries on the listing may already have been entered into the computer. He also stated that the reason it is taking FCIA so long to take corrective action on the transactions rejected by Eximbank's computer is because each shipment must be manually traced to supporting records to determine if it was in fact made to a restricted country.

FCIA officials told us that its proposed new revised automated system, scheduled to be approved and implemented by FCIA this year, should solve the above problems. The new system will have features that will replace and improve the internal control and edit features in the present system. This includes an edit feature to verify that the correct rate is used in the computation of premium fees and an electronic linkup with Eximbank's computer that will facilitate the updating of FCIA's computer when the restricted country listing is revised. In addition, the system will have a feature to link policy numbers to the names of the insured to eliminate the possibility of incorrectly crediting premium payments.

In our opinion, Eximbank should monitor the approval and implementation of FCIA's proposed new automated accounting system through its membership on the audit committee to assure that the new system will correct the weaknesses noted. If the new system is not implemented promptly, Eximbank should encourage FCIA to adopt the necessary interim procedures to correct its existing accounting system weaknesses.

INSUFFICIENT VERIFICATION OF FCIA'S MONTHLY REPORTS

Eximbank verifies the expense data shown on FCIA's monthly activity reports to copies of supporting receipts submitted with each report, but does not verify detailed supporting records of premium income and claims payment data shown on the reports. We were told that these records are kept at FCIA and are too voluminous to be submitted with the reports. Verification of such data would provide additional assurance to Eximbank of the reliability of the monthly reports, which serve as the basis for sharing income and expenses by Eximbank and FCIA.

During our visit to FCIA, we examined supporting documents for a sample of 52 insurance claims transactions that we obtained from Eximbank computer reports for 1964 through 1982. Eximbank compiled these reports from data in FCIA monthly activity reports. For 17 (or 33%) of the claims, we found that information obtained from Eximbank reports did not agree with FCIA supporting documents. Discrepancies noted ranged up to \$29,000 and concerned the amount of claims paid, the amount of claims outstanding, and whether Eximbank or FCIA actually paid the claim. Discrepancies such as these could result in over payments or underpayments of claims by Eximbank.

The Eximbank/FCIA agreement provides that FCIA shall maintain appropriate accounting records, files, and supporting data of all insurance and claim transactions and that these records shall be available at all times to Eximbank for inspection and review. Eximbank officials stated that they mainly depend on annual audits by FCIA's independent auditors to ensure the reliability of premium income and claims payment data shown on FCIA monthly reports. However, they stated that, for claims paid by FCIA, Eximbank's Claims Division reviews supporting schedules provided with the monthly reports. They further stated that Eximbank does not have sufficient staff to audit supporting records kept by FCIA in New York City.

FCIA's independent auditors conduct audits to certify that the data in FCIA's financial statements is reasonably accurate as a whole. The scope of their audits is not sufficient to ensure that errors do not exist in FCIA's monthly reports of income and expenses to Eximbank.

We believe that periodic visits to FCIA by Eximbank staff to test FCIA supporting records would require little time and could further assure Eximbank of the reliability of these reports. These visits could help in (1) detecting and resolving differences found in these reports, and (2) improving FCIA's record keeping by encouraging it to maintain supporting documentation in a manner that will provide a clear audit trail.

We express our thanks to you and your staff for the cooperation and courtesy extended to us during our annual audit.

Sincerely yours,



Frank C. Conahan
Director